Imperial College Union

Finance and Risk Committee

24 April 2018

AGENDA ITEM NO.	17
TITLE	**Reserves Discussion Paper**
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EXECUTIVE SUMMARY	Given our current financial health, there is an opportunity to revise our reserves policy and make additional resources available for the achievement of ***Our Strategy.***
PURPOSE	Trustees are required to review the reserves policy each year. To initiate a discussion about the beneficial use of our reserves to help encourage longer term planning knowing resources are available.
DECISION/ACTION REQUIRED	For discussion.

Reserves Discussion Paper

1. Introduction
    1.1. This paper sets out to review the current reserves policy and consider whether the current approach is still appropriate for Imperial College Union at this point in our journey.

    1.2. Put simply, reserves are the total savings held at the end of the financial year which are built up over time. Some reserves are restricted and not available for general distribution. E.g. the balances of Clubs, Societies and Projects. However, the free reserves are available to be used and directed by the trustees for the objectives of the Union.

    1.3. The level of free reserves as at 31 July 2017 was £840,864 compared with a negative balance of (£5,001) as at 31 July 2012. The Union has been through a period of financial austerity and has worked hard to not only build up reserves but also to restore its financial credibility as determined by Internal (KPMG) and External Auditors (Crowe Clark Whitehill).

    1.4. Charity law requires that any income received by a charity is to be spent within a reasonable period of receipt. Trustees are required to be able to justify the holding of income as reserves.

2. Opportunity for Change
    2.1. The reserves policy approved by Finance and Risk in October 2016 and reviewed in May 2017 sets out a reserves target of £1.2m. Appendix 1 shows that this is likely to be achieved in just over 4 years (2022/23).

    2.2. Given our current financial health is there an opportunity to think differently about our approach to financial management and financial risk? There has been a determined focus on achieving the in-year financial target placing the organisation under unnecessary strain. This has led to shorter-term thinking in some instances.

    2.3. While there was an intended shift in our financial risk appetite as the 16/17 budget was agreed in June 2016 with the cessation of the operational contingency (3%-5% in-year expenditure provision of volatile income), having strengthen our balance sheet there is an opportunity now to focus more of our resources on initiatives to escalate our drive to achieve ***Our Strategy***.

    2.4. There needs to be a shift in culture to more long-term planning and allocations of appropriate resources to underpin emerging and viable ideas.

    2.5. A less cautious reserves model would free-up resources to be applied to strategic priorities.

3. How much in reserves does the Union need?
    3.1. There is no single level or even a range of reserves that is right fall all charities. Any target set by Trustees for the level of free reserves to be held should reflect the particular circumstance of the individual charity.

    3.2. The improved strength of the balance sheet coupled with the proven experience of the leadership team by delivering over 5 consecutive years of consistent surpluses, the 15% reserves target for mitigation against volatile income loss seems excessive.

3.3. College block grant has been excluded from this assessment in appendix 2 as the Union is increasingly seen as a vital partner in delivering an essential part of the students' experience. There has been no reduction in the block grant over the last six years and at present we are unaware of such a consideration.

3.4. Having a robust capital investment plan is essential part of reserves planning. The model outlined in appendix 1 is based on the approved capital purchases for year 1 (18/19) and then a replacement trajectory for the remaining 9 years assuming replacement assets are purchased at the end of their "depreciated" life.

3.5. Historically major capital investment have been underpinned by capital grants. The capital forecast assumes that in 2026/27 major capital expenditure would be needed to replace the capital assets in our Bars and Office areas which represents the end of their "depreciated" life.

3.6. While it is very unlikely that a major renovation will happen at that time, consideration is needed as to a more timely replacement strategy to preserve the ambience of our social and office spaces.

4. Current Operational Challenge
   4.1. At present our current financial model has a high degree of fixed costs (e.g. staffing) which does not allow the Union to flexibly apply added resources to developmental initiatives which are aligned with our strategy.

5. Recommendation
   5.1. The reserves target should remain at £1.2m based on a 10% provision of volatile income and a 3 year provision for replacement capital.
   5.2. Create a £200k designated reserve to fund new discrete initiatives and projects which would make added resources available for the achievement of our strategy.

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Appendix 1

Reserves Forecast:

GENERAL RESERVE FORECAST

Year	Opening Balance	Asset Purchase	Depreciation	DCG Release	Surplus	General Reserves
2017/18	840,864	(142,259)	533,559	(231,912)	-	1,000,251
2018/19	1,000,251	(315,863)	569,212	(231,912)	-	1,021,687
2019/20	1,021,687	(287,315)	550,742	(231,912)	50,000	1,103,201
2020/21	1,103,201	(355,918)	557,445	(231,912)	50,000	1,122,816
2021/22	1,122,816	(350,320)	537,796	(231,912)	50,000	1,128,379
2022/23	1,128,379	(249,122)	522,979	(231,912)	50,000	1,220,324
2023/24	1,220,324	(212,683)	530,469	(231,912)	50,000	1,356,198
2024/25	1,356,198	(370,627)	534,443	(231,912)	50,000	1,338,101
2025/26	1,338,101	(488,755)	548,838	(231,912)	50,000	1,216,272
2026/27	1,216,272	(1,444,564)	610,012	(231,912)	50,000	199,808
2027/28	199,808	(582,812)	561,979	(186,729)	50,000	42,246

Appendix 2

Commercial Services Income Volatility

		Gross Profit Budget 2017/2018	Previous
		£'000's	£'000's
Beit Venue		261	237
Retail		537	501
CX		91	98
H Bar		168	141
SK Bar		948	862
Catering		298	220
Ents		30	36
		2,333	2,095
Potential Reserve Provision for Volatile Income			
	5%	117	105
	10%	$\boxed{233}$	210
	15%	350	$\boxed{314}$
Capital Replacement Projection			
	3 years	$\boxed{994}$	
	5 Years	1,455	$\boxed{930}$
Potential Reserves Target		1,227	1,244